HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Victoria CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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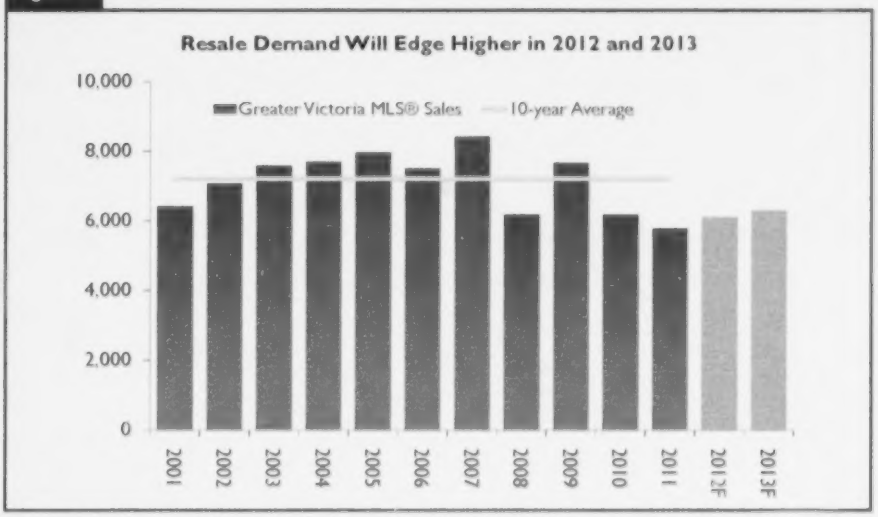
Victoria Highlights[1]

- The resale market is expected to return to balanced market conditions during the remainder of 2012.
- Average resale home prices are forecast to remain stable in 2012 and 2013.
- Housing starts will edge up in 2012 and 2013, but will remain slightly below the ten-year average.
- The rental apartment vacancy rate is expected to move lower in 2012
- Improving employment and continued positive net migration will support a stable housing market.

Figure 1



Source: CMHC, adapted from MLS® data supplied by CREA. MLS® is a registered trademark of the Canadian Real Estate Association.

[1] *The forecasts included in this document are based on information available as of April 27, 2012.*

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Returning to a Balanced Market

The Victoria resale market is expected to return to balanced market conditions during the second half of 2012, where it will remain through 2013.[2] Multiple Listings Services (MLS®)[3] sales will edge higher in 2012 and 2013 in response to improved employment. While resale demand is forecast to increase six per cent this year and another three per cent in 2013, annual MLS® sales will remain below the historical ten-year average.

The supply of existing homes has started to stabilize, a trend that will continue as MLS® resale prices moderate across all dwelling types. During the first quarter, 3,385 new MLS® listings were recorded, a five per cent reduction in supply compared to the number of homes listed for sale during the first quarter of last year, and two per cent below the ten-year historical average.

In conjunction with buyers' market conditions in 2011, MLS® prices have moderated. The average resale price has declined for three consecutive quarters but is expected to stabilize during the remainder of the forecast period as market conditions return to balance. On an annual basis, the average Victoria resale price is forecast to decline one per cent in 2012 to $495,000, and remain unchanged in 2013. In addition to stable prices, households looking to enter the resale market will be able to select from a wide range of homes (dwelling types and locations) at a number of price points, appealing to first-time buyers and to move-up buyers.

New Home Construction Activity to Edge Higher

After a slower than average year for local home builders in 2011, CMHC forecasts residential construction activity will pick up both this year and next in response to improving employment conditions and increased net migration. While increased construction activity is expected over the short-term for the Victoria Census Metropolitan Area (CMA)[4] - 1,800 starts in 2012 and 1,900 units in 2013 - levels will remain slightly below the historical ten-year average.[5]

Through the end of March, a number of multiple-unit projects were in the planning, approval or permit stages across the core and West Shore markets.[6] Multiple-unit projects are expected to account for over 60 per cent of total housing starts until the end of 2013. This level of construction is marginally higher than the historical average.[7] Continued densification of the Victoria CMA is linked to rising new and resale home prices, a scarcity of developable land, and changing consumer preferences which favour multiple-family housing types. Most of the new apartment condominium projects that will be marketed over the short-term are expected to cater to first-time homebuyers as well as move-down buyers with equity, whether from

Figure 2

Source: CMHC, adapted from MLS® data supplied by CREA. MLS® is a registered trademark of the Canadian Real Estate Association.

[1] *The Victoria resale market refers to the area served by the Victoria Real Estate Board (VREB). This area includes Greater Victoria (from Sooke to Sidney), up Island as far as Cherry Point Road in Cobble Hill, and the Gulf Islands (source: www.vreb.org).*

[2] *Multiple Listing Services (MLS) is a registered certification mark owned by the Canadian Real Estate Association (CREA).*

[3] *The Victoria CMA is similar to the Greater Victoria area outlined by VREB, but does not include the Gulf Islands, Malahat, Shawnigan Lake, Mill Bay or Cobble Hill.*

[4] *Victoria CMA 2002-2011 average number of annual housing starts = 1,979.*

[5] *The West Shore includes Langford, Colwood, Metchosin, the Highlands, View Royal, and Sooke, while the core include Victoria, Saanich, Oak Bay, and Esquimalt.*

[6] *During the period from 2002 to 2011, 58 per cent of total Victoria CMA housing starts were multiple unit homes.*

Victoria or other markets. The trend has been for developers to build smaller units in order to achieve the lower price points desired by first-time buyers. This trend is expected to continue.

As a result of improving resale market conditions and the BC government's recent announcement of Harmonized Sales Tax (HST) transitional rules aimed at lessening the impact of the HST on new home construction, single-detached new home construction is expected to increase. The expectation is that 650 new houses will begin construction in 2012 and 750 in 2013. The West Shore will continue to account for the bulk of single-detached housing starts, as very few developable lots are available within the core markets.

Rental Market: Expect Lower Vacancy Rate

Victoria's apartment vacancy rate is forecast to edge down to 1.6 per cent in October 2012, from 2.1 per cent in October 2011, as positive net migration and modest employment growth stimulate rental demand. Growth of the secondary rental stock (investor-owned condominiums and accessory suites) will keep the apartment vacancy rate above its ten-year average. The secondary rental stock continues to represent an increasingly important source of rental accommodation, and currently accounts for roughly one half of all rental units in the Victoria CMA.

Average rents will rise marginally in 2012, in response to three consecutive years of rising vacancy rates in the provincial capital. The average one- and two-bedroom apartment rents will reach $835 and $1,070 in 2012, respectively.

Economy to Support Housing Demand

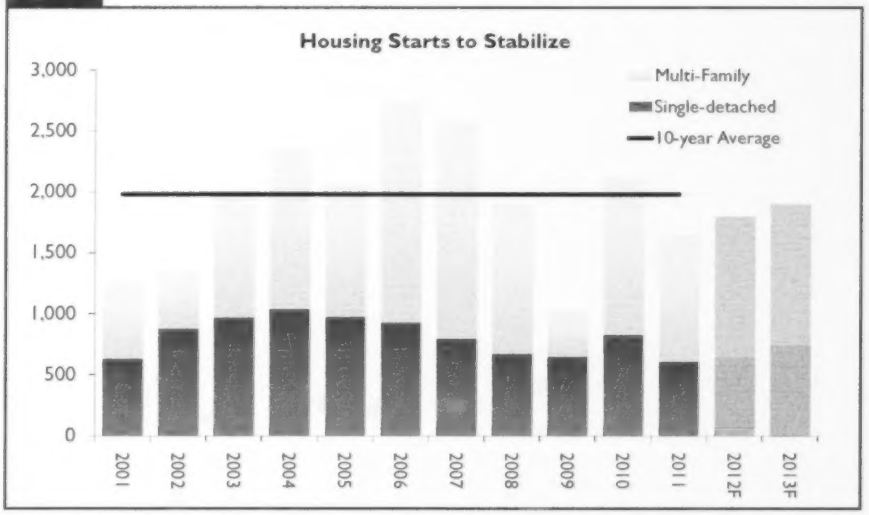
The Victoria CMA economy is expected to post modest growth in 2012, which will stimulate local housing demand through job creation and income growth, particularly among first-time homebuyers. Economic growth will be broad-based, driven by the business services and high-tech sector, shipbuilding activity, post-secondary education and health care spending, as well as non-residential construction activity.

The value of residential and non-residential building permits declined in 2011 compared to 2010. While the value of permits issued for non-residential construction activity remains below year-ago levels, residential permits have increased in value in the first two months of 2012. It is expected that permits issued over the past few years will stimulate regional employment and construction spending. The value of residential building permits issued jumped to $60.8 million in February on a seasonally-adjusted basis, the highest monthly value since December 2009, when the value reached $62.1 million.

Employment in Victoria is forecast to expand this year and next, returning to the previous peak level by the end of 2013. While the high-tech sector will continue to see more activity and drive job creation over the next two years, the effects of the federal shipbuilding contract will be positive over the long-term.

Census results indicate the Victoria CMA population increased by 4.4 per cent between 2006 and 2011. People coming from other provinces and within British Columbia were key sources of population growth and housing demand. While moderating from levels recorded during the mid 2000s, BC Stats projects population growth and household formation to remain steady through 2025.

Figure 3



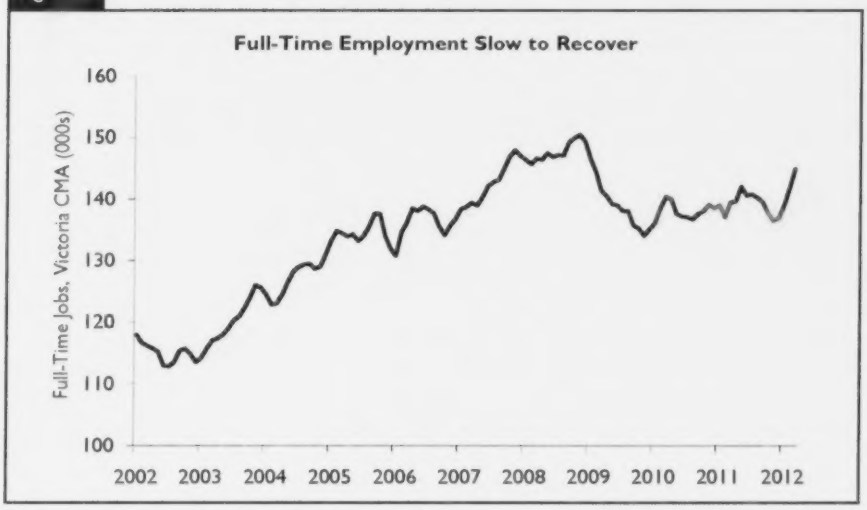
Source: CMHC

Mortgage Rates

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

Figure 4



Source: Statistics Canada, seasonally adjusted by CMHC.

Forecast Summary Victoria CMA Spring 2012	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	7,660	6,169	5,773	6,100	5.7	6,300	3.3
MLS® New Listings	11,745	13,250	13,427	12,500	-6.9	12,800	2.4
MLS® Average Price ($)	476,137	504,561	498,300	495,000	-0.7	495,000	0.0
New Home Market							
Starts:							
Single-Detached	647	827	609	650	6.7	750	15.4
Multiples	387	1,291	1,033	1,150	11.3	1,150	0.0
Semi-Detached	186	234	84	160	90.5	170	6.3
Row/Townhouse	62	162	198	140	-29.3	150	7.1
Apartments	139	895	751	850	13.2	830	-2.4
Starts - Total	1,034	2,118	1,642	1,800	9.6	1,900	5.6
Average Price ($):							
Single-Detached	668,875	635,664	667,023	658,000	-1.4	660,000	0.3
Median Price ($):							
Single-Detached	599,900	595,500	610,000	611,000	0.2	615,000	0.7
New Housing Price Index (% chg.)	-7.8	-2.8	-1.6	-1.0	-	0.0	-
Rental Market							
October Vacancy Rate (%)	1.4	1.5	2.1	1.6	-0.5	1.4	-0.2
Two-bedroom Average Rent (October) ($)	1,001	1,024	1,045	1,070	-	1,090	-
One-bedroom Average Rent (October) ($)	790	806	819	835	-	850	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level (persons)	183,100	183,400	182,000	185,600	2.0	188,300	1.5
Employment Growth (%)	-3.9	0.2	-0.8	2.0	-	1.5	-
Unemployment rate (%)	6.5	6.0	6.1	5.4	-	5.2	-
Net Migration	6,133	4,979	3,444	4,800	39.4	5,500	14.6

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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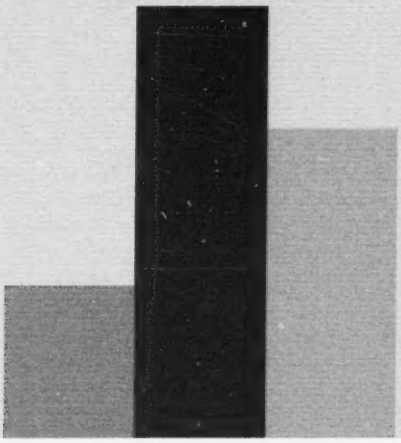

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